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BEFORE THE ARIZONA CORPORATIO

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AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION OF VAIL WATER COMPANY FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR AN INCREASE IN ITS RATES AND CHARGES BASED THEREON.	DOCKET NO. W-01651B-12-0339 **STAFF'S NOTICE OF FILING PROPOSED PLAN OF ADMINISTRATION AND EXAMPLE COMPUTATION OF CAP SURCHARGE**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Proposed Plan of Administration and Example Computation of CAP Surcharge in accordance with the Settlement Agreement which was previously filed on April 26, 2013 in the above docket.

RESPECTFULLY SUBMITTED this 3rd day of May 2013.

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Original and thirteen (13) copies
of the foregoing filed this
3rd day of May 2013 with:

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Copy of the foregoing mailed
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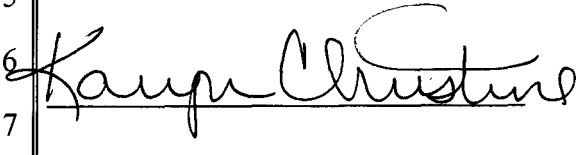

CAP Surcharge and Long-Term Storage Credit Balance Plan of Administration

This Plan of Administration ("POA") relates to the administration of Vail Water Company's ("Vail" or the "Company") CAP Surcharge and Long-Term Storage Balance. The purpose of the POA is to describe how Vail will administer its CAP Surcharge and Long-Term Storage Balance if approved by the Arizona Corporation Commission in Docket No. W-01651B-12-0339.

I. Overview

Vail is a public service corporation providing water utility service in Pima County, Arizona pursuant to a Certificate of Convenience and Necessity granted by the Arizona Corporation Commission. As described in Decision Nos. 62450 and 73218, Vail is currently pursuing a CAP project that will allow for the direct delivery of CAP water in Vail's service territory.

II. General Description - Surcharge

The purpose of the CAP surcharge mechanism is to recover the costs of CAP water and delivery of CAP water to the Company's service territory not included in base rates once the CAP project is complete and water is being delivered. Under the Company's proposed CAP surcharge mechanism, the Company would be required to make a separate filing for Commission consideration before the first surcharge becomes effective. The Company shall file its first surcharge request prior to taking delivery of CAP water through the CAP project. The amount of the initial surcharge will be determined and submitted for approval by the Commission. The CAP surcharge will be based on gallons sold similar to a commodity rate. The CAP surcharge will appear on customers' bills as a separate line item labeled "CAP Water Surcharge." Thereafter, the Company shall make annual filings prior to the anniversary of the effective date of the initial CAP surcharge.

III. Components of CAP Surcharge

The CAP surcharge will include the following components as further described in Exhibit 1:

- Component 1 - Variance from Combined CAP M&I Capital and CAP Delivery Charges included in Base Rates – This component is based upon variances between the combined CAP M&I capital and CAP delivery charges in effect for the applicable year and the combined amount of those rates ($105.87 per acre-foot) included in base rates.

- Component 2 - Tucson Water Wheeling Fees – This component is based upon the fees set forth in the final Wheeling Agreement between Vail and Tucson Water and the volume of water delivered to Vail's service territory as defined by the Wheeling Agreement.

- Component 3 - Periodic Unrecovered Recharge Credits – This component applies the rate variance calculated in Component 1 to any excess of the total CAP allocation (in acre-feet) over the total water wheeled to customers. It is an asset that represents the CAP costs included in long term storage credits reserved for future use.

- Component 4 - Prior Year Under/(Over) Recovery – This component represents the under/(over) recovery of the prior year's costs through the surcharge.

- Component 5 - Long Term Storage Credit Recovery – This component reflects the value of Long Term Storage Credits to be recovered from ratepayers and used to offset CAGRD fees. The amount for recovery from ratepayers is calculated using average inventory cost. Vail will provide documentation to support these amounts.

- Component 6 - Gain on Sale of Long Term Storage Credits – This component reflects the customers' share (50 percent) of any profit resulting from the sale of Long Term Storage Credits to third parties.

- Component 7 - Excess Water Loss Disallowance – This component is a disallowance of charges based on unaccounted for water loss in Vail's system in excess of 10 percent. If Vail's unaccounted for water loss for the 12 months prior to the date of filing for a new surcharge exceeds 10 percent, the total amounts of the other components will be reduced by the percentage the unaccounted for water loss is in excess of 10 percent.

IV. Calculation of the CAP Surcharge

Once the total of the component costs have been determined, the CAP surcharge (per 1,000 gallons) will be calculated by dividing the total costs by the prior year's gallons sold (in 1,000s). An illustrative exhibit is attached as Exhibit 1 showing the components of the calculation.

The Company will track the surcharge collections during the year and identify any under/(over) recovery. Any under/(over) recovery of the prior year's surcharge will be considered in the subsequent year's computation of the surcharge.

V. CAP Long-Term Storage Balance

The Company will maintain a CAP long-term storage balance. The balance will be calculated beginning with the $1,081,028 amount adopted as a component of rate base and reflect additions for CAP M&I capital and CAP delivery charges incurred in the period beginning January 1, 2012, and ending the day before rates become effective in this case and

Periodic Unrecovered Recharge Credits (Component 3) and deductions for Variance from Combined CAP M&I Capital and CAP Deliver Charges included in Base Rates (Component 1), Long-Term Storage Credit Recovery (Component 5) and Total Cost of Long-Term Storage Credits Sold (Exhibit 1, Line 22).

VI. Reporting

The Company shall file its first surcharge request prior to taking delivery of CAP water through the CAP project.

On or before February 1st of each year thereafter Vail will submit to the Commission as a compliance item an annual report showing its collections under the CAP Surcharge that includes a calculation of any under/(over) recovery and a calculation of the CAP Long-Term Storage Balance with detail showing each component's contribution to the change in balance from the prior year.

VII. CAP Surcharge Implementation

Vail will submit annually a schedule showing the computation of each year's surcharge along with supporting documentation of the underlying costs. Except for the first year, which may be a partial year, each surcharge shall remain in effect for a period of 12 months. The first surcharge calculation shall require Commission approval prior to going into effect. Thereafter, each surcharge shall be approved administratively by Commission Staff and shall become effective on April 1st, unless Commission Staff files an objection to such surcharge calculation prior to April 1st. Notwithstanding the foregoing, if any annual surcharge proposed by Vail represents an increase greater than $1.00 per 1,000 gallons over the CAP surcharge then in effect, such surcharge shall require Commission approval prior to going into effect.

Vail Water Company
CAP Surcharge Mechanism
Example Computation of CAP Surcharge (Year 1)

Component 1 - Variance from Combined CAP M&I Capital and CAP Delivery Charges Included in Base Rates			
[1]	CAP Allocation (a.f.)		1,857
[2]	CAP M&I Capital and Delivery Charges (per a.f.) using base year (test year CAP rate)	$	105.87
[3]	CAP M&I Capital and Delivery Charges (per a.f.) using next year's firm rate	$	144.00
[4]	CAP Rate Increase (decrease) [3]-[2]	$	38.13
[5]	Total CAP M&I Capital and Delivery Charges Increase(decrease) [1]x[4]	$	70,807
Component 2 - Tucson Water Wheeling Fees			
[6]	CAP Water Delivered to Vail Service Territory (a.f.)		1,100
[7]	Wheeling fee (per a.f.)	$	650.00
[8]	Total Wheeling Fees	$	715,000
Component 3 - Periodic Unrecovered Recharge Credits			
[9]	CAP Water Recharged (a.f.) [1]-[6]		757
[10]	CAP Rate Increase (per a.f.) = [4]	$	38.13
[11]	Total Recharge Credits for Future Use [9]x[10]	$	(28,864)
Component 4 - Prior Year Under/(Over) Recovery (Not applicable in Year 1)			
[12]	Total amount to be recovered via surcharge =[38] from prior year calc	$	-
[13]	Gallons sold in previous 12 months (in 1,000s) (provide support)		-
[14]	Prior year surcharge rate (per 1,000 gallons) = [40] from prior year	$	-
[15]	Amounts recovered via surcharge [13]x[14]	$	-
[16]	Prior Year Under (Over) recovery [12]-[15]	$	-
Component 5 - Long-Term Storage Credit Recovery			
[17]	Long-term Storage Credits Used (a.f.) (provide support)		100
[18]	Average Cost (provide support)	$	125
[19]	Total Cost [17]x[18]	$	12,500
Component 6 - Gain on Sale of Long-Term Storage Credits			
[20]	Long-term Storage Credits Sold (a.f.) (provide support)		100
[21]	Average Cost per a.f. (provide support)	$	125
[22]	Total Cost of Long-term Storage Credits Sold [20]x[21]	$	15,625
[23]	Total Sales of Long-term Storage Credits	$	15,625
[24]	Gain on Sale of Storage Credits [23]-[22]	$	-
[25]	Shared with Ratepayers (%)		50.00%
[26]	Credit for Rate Payer's Share of Gain [24]x[25]x(-1)	$	-
Component 7 - Excess Water Loss Disallowance			
[27]	Gallons Sold in Prior Year (in 1,000's) (provide support)		344,500
[28]	Accounted for Water Not Sold (in 1,000's) (provide support)		10,000
[29]	Total Gallons Sold and Accounted For (in 1,000's) [27] + [28]		354,500
[30]	Total Gallons Allowed (in 1,000s) [29]/0.90		393,889
[31]	Gallons Pumped in Prior Year (in 1,000's) (provide support)		420,000
[32]	Water Loss (in 1,000's) [31] - [30]		26,111
[33]	Percent Water Loss [32]/[31]x100		6.22%
[34]	Allowed Water Loss Percentage		10.00%
[35]	Percent Reduction in Total Costs Recovered [34]-[33] (if positive then 0%)		0.00%
[36]	Total Base Costs [5]+[8]+[11]+[16]+[19]+[26]	$	769,443
[37]	Water Loss Credit [35]x[36]	$	-
Computation of Commodity Surcharge			
[38]	Total Net Costs to be Recovered [36]+[37]	$	769,443
[39]	Gallons sold in prior year (in 1,000's)		340,000
[40]	Cost per 1,000 gallons [38]/[39]	$	**2.26**

Vail Water Company
CAP Surcharge Mechanism
Example Computation of CAP Surcharge (Year 2)

Component 1 - Variance from Combined CAP M&I Capital and CAP Delivery Charges Included in Base Rates			
[1]	CAP Allocation (a.f.)		1,857
[2]	CAP M&I Capital and Delivery Charges (per a.f.) using base year (test year CAP rate)	$	105.87
[3]	CAP M&I Capital and Delivery Charges (per a.f.) using next year's firm rate	$	154.00
[4]	CAP Rate Increase (decrease) [3]-[2]	$	48.13
[5]	Total CAP M&I Capital and Delivery Charges Increase(decrease) [1]x[4]	$	89,377
Component 2 - Tucson Water Wheeling Fees			
[6]	CAP Water Delivered to Vail Service Territory (a.f.)		1,300
[7]	Wheeling fee (per a.f.)	$	650.00
[8]	Total Wheeling Fees	$	845,000
Component 3 - Periodic Unrecovered Recharge Credits			
[9]	CAP Water Recharged (a.f.) [1]-[6]		557
[10]	CAP Rate Increase (per a.f.) = [4]	$	48.13
[11]	Total Recharge Credits for Future Use [9]x[10]	$	(26,808)
Component 4 - Prior Year Under/(Over) Recovery			
[12]	Total amount to be recovered via surcharge =[38] from prior year calc	$	769,443
[13]	Gallons sold in previous 12 months (in 1,000s) (provide support)		352,000
[14]	Prior year surcharge rate (per 1,000 gallons) = [40] from prior year	$	2.26
[15]	Amounts recovered via surcharge [13]x[14]	$	796,600
[16]	Prior Year Under (Over) recovery [12]-[15]	$	(27,157)
Component 5 - Long-Term Storage Credit Recovery			
[17]	Long-term Storage Credits Used (a.f.) (provide support)		100
[18]	Average Cost (provide support)	$	125
[19]	Total Cost [17]x[18]	$	12,500
Component 6 - Gain on Sale of Long-Term Storage Credits			
[20]	Long-term Storage Credits Sold (a.f.) (provide support)		150
[21]	Average Cost per a.f. (provide support)	$	125
[22]	Total Cost of Long-term Storage Credits Sold [20]x[21]	$	15,625
[23]	Total Sales of Long-term Storage Credits	$	15,625
[24]	Gain on Sale of Storage Credits [23]-[22]	$	-
[25]	Shared with Ratepayers (%)		50.00%
[26]	Credit for Rate Payer's Share of Gain [24]x[25]x(-1)	$	-
Component 7 - Excess Water Loss Disallowance			
[27]	Gallons sold in previous 12 months (in 1,000s) (provide support)		352,000
[28]	Accounted for Water Not Sold (in 1,000's) (provide support)		10,000
[29]	Total Gallons Sold and Accounted For (in 1,000's) [27] + [28]		362,000
[30]	Total Gallons Allowed (in 1,000s) [29]/0.90		402,222
[31]	Gallons Pumped in Prior Year (in 1,000's) (provide support)		420,000
[32]	Water Loss (in 1,000's) [31] - [30]		17,778
[33]	Percent Water Loss [32]/[31]x100		4.23%
[34]	Allowed Water Loss Percentage		10.00%
[35]	Percent Reduction in Total Costs Recovered [34]-[33] (if positive then 0%)		0.00%
[36]	Total Base Costs [5]+[8]+[11]+[16]+[19]+[26]	$	892,912
[37]	Water Loss Credit [35]x[36]	$	-
Computation of Commodity Surcharge			
[38]	Total Net Costs to be Recovered [36]+[37]	$	892,912
[39]	Gallons sold in previous 12 months (in 1,000s) =[13]		352,000
[40]	Cost per 1,000 gallons [38]/[39]	$	**2.54**